



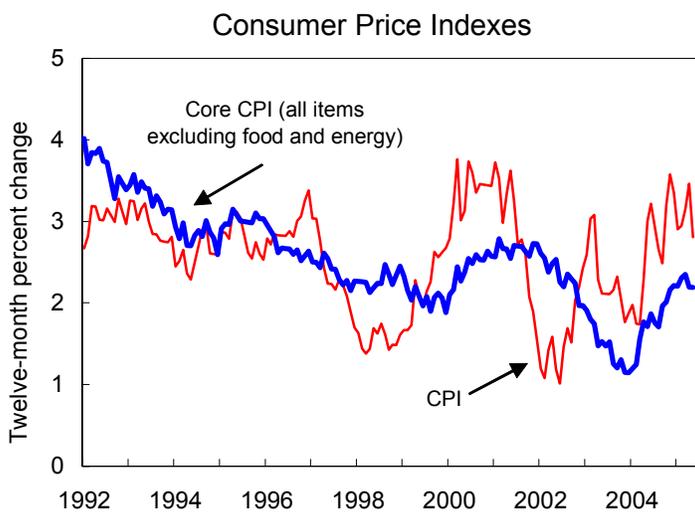
WEEKLY ECONOMIC DIGEST



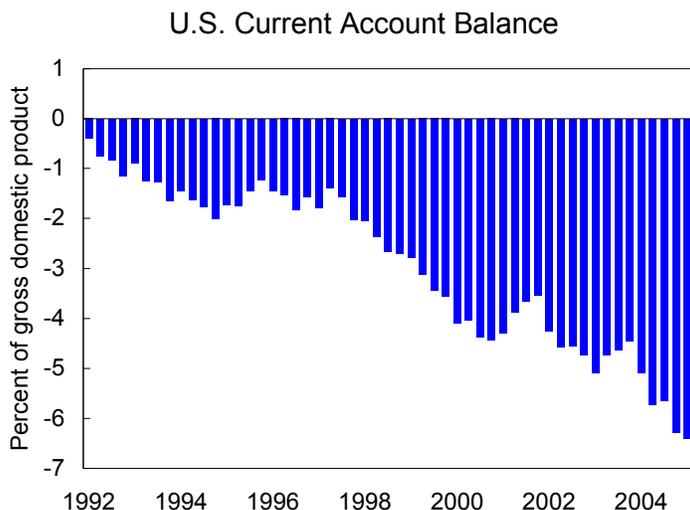
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

June 21, 2005

Consumer Prices and Retail Sales Decline with Dip in Energy Prices



Source: Bureau of Labor Statistics, U.S. Department of Labor.



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

- **Consumer prices fell in May.** The consumer price index (CPI) declined by 0.1 percent last month, as energy prices declined by 2 percent. The core CPI (which excludes food and energy prices) rose by only 0.1 percent and was 2.2 percent above its level a year earlier (see top chart). The average hourly earnings of production and other nonsupervisory workers outpaced CPI inflation for the first time since January, rising by 0.2 percent last month. However, real (inflation-adjusted) earnings remained 0.2 percent below their level a year ago.
- **Retail sales dropped last month.** Sales at retail and food services establishments declined by 0.5 percent in May, but remained 6.4 percent above their level in May 2004. Last month's decline reflected a 1.6 percent drop in sales at motor vehicle and parts dealers and a 1.6 percent decline in sales at gasoline stations stemming from a drop in retail gasoline prices. Sales excluding gas stations and automotive dealers were flat in May after posting a solid 1.3 percent gain in April.
- **Industrial production rose in May.** The total output of factories, mines, and utilities rose by 0.4 percent last month, after falling by 0.3 percent in April. Manufacturing production rose by 0.6 percent, the largest monthly advance since last July. Output increased for most manufacturing sectors, raising capacity utilization to 78.2 percent, just under its recent peak of 78.3 percent in February.
- **The current-account deficit rose to a new record in the first quarter.** The U.S. current-account deficit—a measure that combines the balance on trade in goods and services with the balance on international income flows—widened to \$195.1 billion in the first quarter. That amounts to 6.4 percent of gross domestic product, a new record (see bottom chart).

The Economy at a Glance	May	Apr	Mar	Feb	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.5	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)	4.9	-3.5	2.4	6.2	3.5	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)	79.4	79.1	79.4	79.4	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.1	5.2	5.2	5.4	5.3	5.4	5.5	5.6	5.5	6.0
Housing Starts (thousands)	2009	2005	1833	2228	2083	1973	1974	1923	1950	1854
Real Disposable Personal Income (% growth)	n.a.	1.0	-0.2	1.9	3.3 [#]	6.0 [#]	2.9	2.8	3.4 [#]	2.3
Retail Sales (% growth)	-5.8	20.2	3.9	8.1	6.0	10.2	6.7	6.3	7.3	4.3
Personal Saving Rate (level, %)	n.a.	0.4	0.5	0.9	0.9	1.1 [#]	0.7	1.3	1.0 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	-1.2	6.2	7.4	4.9	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	0	4.9	3.7	2.6	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	4.1	3.6	3.9	4.0
Output per Hour (% growth)	—	—	—	—	2.9	2.3	0.9	4.1	4.0	4.3
Financial Markets										
T-bill Rate, 3-month (level, %)	2.84	2.78	2.74	2.54	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.14	4.34	4.50	4.17	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	3.00	2.79	2.63	2.50	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10377	10283	10682	10724	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Existing Home Sales: May 2005** [Release: Thursday, June 23]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: May 2005** [Release: Friday, June 24]
- **New Residential Sales: May 2005** [Release: Friday, June 24]